

How To Protect Profit Margins Heading into a Recession: Five Questions All Business Owners Should Ask About Their Operations

By Brett Dearing, CEPA, CM&AA

As economic indicators continue to reinforce signs of recession, as a business owner it is imperative to start thinking vertically about your operational processes and procedures. For many business owners, operations are the last area of focus. But according to IDC, businesses lose 20% to 30% of their revenue annually due to operational inefficiencies.

As we head towards a business cycle where profit margins will continue to be squeezed further by increased COGs, consumer pricing sensitivity, and an economic slowdown, building an enterprise resource plan (ERP) to improve operational efficiency and effectiveness could be the action needed to protect profit margins and revenue growth. The NFIB Small Business Optimism Index decreased to 89.5 in June from 93.1 the prior month. This is the lowest index ranking since January of 2013. Business owners are feeling more pessimistic now than during the pandemic.

FACTORS CAUSING INEFFECTIVE OPERATIONS

Many internal and external factors can impact the operational effectiveness of your business. These factors fall under five questions all business owners should ask. If the answer is “yes” to one or more of these questions, working to create a strategic action plan around enhancing the main arteries of your operations could, even in the context of a troubled economy, create a successful year of revenue growth and increased margins.

FIVE QUESTIONS ALL BUSINESS SHOULD ASK ABOUT THEIR OPERATIONS

1. Do you silo yourself from your management team?
2. Is there overlap in team responsibilities?
3. Are you and your team utilizing the right informational indicators?
4. Do you currently have gaps or bottlenecks in your operations?
5. Are you currently using multiple systems for various areas of operations?

1. Do you silo yourself from your management team?

There are many reasons why owners become isolated from their management team. The most common reasons are lack of confidence, micromanagement, and the absence of communicating your vision to the team. Unfortunately, if the team does not understand your long-term vision for the business and does not know their role in supporting that vision, you have one of your most valuable resources being underutilized. The ability to grow a business through all phases of the business cycle relies on your team being aligned with repeatable operational processes and procedures that create efficiency and scale. Equally important is the ability to set goals toward your vision and monitor progress.

2. Is there overlap in team responsibilities?

Building redundancy into day-to-day operations long-term is a good practice. Having more than one person or division repeating the same scope of work is inefficient and, in the current business cycle, expensive. The simplest, most effective way to understand workflow and team responsibilities is to start with building an organizational chart for the company. Once you have created the different groups and divisions, start creating the workflow, transition points, and responsibilities. If your org chart starts to have more than a few people outside of a division, team, or group, you can begin to identify potential breakdown points in your workflow that increase operating costs, while reducing your ability to scale.



3. Are you and your team utilizing the right information?

Operations will tell you where the issues are in your process, assuming you are set up to receive the right data. Today, key performance indicators (KPIs) are extremely popular in concept. But what's important about using KPIs is the ability to capture data in a way that enables better decision making, identify bottlenecks or gaps, and understand areas where capital investment may be needed.

The simplest way to gather the correct data points is to look at the organizational chart and think about what information you and your team would like to receive. Start with the beginning of your sales/product process and follow it all the way to completion. Write down the top three data points you would like to know for each step in the process. Once that list is gathered, meet with your management team to see if they agree and who on the team would benefit from receiving that information. It is important to create monthly worksheets with the data points for each of your team members. It can be that simple to empower your team to make better decisions, while driving revenue and increasing profit margins.

4. Do you have bottlenecks or gaps in your current operations?

Gaps and/or bottlenecks in your operational workflow can be costly. Think of trying to fill a bucket with water and having a hole in the bottom. The point where process bottlenecks or where there is a gap in a team transition point, allows profits to run out the gaps or back up at bottleneck points. When thinking about how this affects your team, it can also cause burnout for team members at bottleneck or gap points. Workflow or project management software can be a great solution in managing projects and processes. It is also beneficial in identifying unique workflows and areas where additional resources are needed.

5. Are you currently using multiple systems for various areas of operations?

Vertical integration, or centralizing business operations, should be a priority for any business owner heading into 2023. With the demographic shift of exiting business owners over the next eight years, tighter margins, economic slowdown, and other key factors, having a well-run business with operational scalability, sound process and procedures, and handling the growth appetite of a potential buyer, helps make your business more attractive. It also is easier to run from an operational perspective.

If your business is using more than three applications to run day-to-day operations and they are not interfacing with each other or downloading to a centralized database where the information is aggregated for reporting and

business analytics purposes, start thinking about how you can integrate these applications. The inefficiency of having multiple applications holding key data from your operational process will create bottlenecks in reporting and deeper gaps in operations.

When I speak with business owners about their operations, or am asked to assess their operational effectiveness, there are common observations and questions frequently asked by business owners.

OPERATIONAL OBSERVATIONS:

- There is little to no thought that goes into the operational arteries of the business.
- The one hire that is often missing is a Director of Operations or Chief Operating Officer.
- There should be someone constantly thinking about the status of operations and making operational process and procedure enhancements to build scalability and support growth.
- There is a lack of operational support needed for the future vision of the business.

FREQUENTLY ASKED QUESTIONS:

Q: When should I be thinking about making operational changes?

A: As a business owner, you should always be thinking about operational enhancements to support growth and scalability.

Q: Why is it important to invest time and resources into operations?

A: The most important reason is your operations support the growth of your business. And if built correctly, it can do so with more efficiency and less incremental expense.

Q: Who should I hire to help me fix my operational issues?

A: There are a lot of consultants that focus on operations. Be sure to interview consultants to better understand their philosophy and process. Ask if they have created operations for other business owners of similar size and vision. Most importantly, ensure you thoroughly understand all aspects of the process before engaging someone to assist.

Q: What is the one thing I can do today to begin the process of enhancing my operations?

A: I believe in keeping process enhancements simple and easy to implement. It is the best way to incorporate operational changes. As stated in earlier comments, utilizing an organizational chart to map out your teams, workflow, and operational process, and then figuring out KPIs is a great way to start the process. You can always incorporate other strategies, but always remember your vision and long-term operational goals as the reason for making enhancements.

Your operations do not have to be the bottleneck for growth and scalability. It can be the foundation of a growing business. Begin evaluating your operation process by clicking on the link and taking a brief operational assessment to help prioritize enhancement areas that can help support growth and increase value to a potential buyer.

Cerity Partners LLC (“Cerity Partners”) is an SEC-registered investment adviser with office locations throughout the United States. Registration of an Investment Advisor does not imply any level of skill or training. The foregoing is limited to general information about Cerity Partners’ financial market outlook. You should not construe the information contained herein as personalized investment, tax, or legal advice. There is no guarantee that the views and opinions expressed in this commentary will come to pass. The information presented is subject to change without notice and should not be considered as an offer to sell or a solicitation of an offer to buy any security. Material economic conditions and/or events may affect future results. All information is deemed reliable as of the date of this commentary but is not guaranteed. Before making any decision or taking any action that may affect your finances or your company’s finances, you should consult a qualified professional adviser. For information pertaining to the registration status of Cerity Partners, please contact us or refer to the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). For additional information about Cerity Partners, including fees, conflicts of interest, and services, send for our disclosure statement as set forth on Form CRS and ADV Part 2 using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

ceritypartners.com/contact

©2022 Cerity Partners LLC, an SEC-registered investment adviser. All Rights Reserved.

15448230 (08/22)